National Credit Union Administration
Board Member Debbie Matz

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8:40-9:10 AM

Thank you, Fred, and thank you to everyone here for the warm welcome you've extended to me throughout this Caucus. I am so impressed with the energy and passion of credit union leaders like you. It was a wonderful opportunity to meet with so many of you at the reception on Sunday night.

It's always important to communicate on your most important issues face-to-face – because in other kinds of communications, some critical information can be misconstrued.

Good thing that when you go to Capitol Hill this week you'll be meeting with your legislators and their staffs face-to-face!

Although landmark credit union legislation is not expected to pass this year, what happens in the next several weeks will determine the agenda in Washington for the next year and even beyond. So this Caucus comes at a very opportune time .

And your theme, "Participation is Power," describes your role perfectly. When you participate personally in the democratic process, you send a powerful statement about your credit unions' commitment to your members back home.

70th Anniversary of FCU Act

Before we look forward to upcoming issues, it's important to look back. This year marks a significant milestone for credit unions: it's the 70th Anniversary of the Federal Credit Union Act.

When President Franklin Roosevelt signed the Act into law in 1934, he enabled millions of consumers to reap the benefits of belonging to a democratic financial institution where they would have access to affordable credit.

Since their birth in the midst of the Great Depression, federal credit unions have offered members a safe alternative to loan sharks. Even back then there were predatory lenders who preyed upon rank-and-file workers, women, immigrants and minorities.

It took enactment of the Federal Credit Union Act to ensure that people of modest means could get low-interest loans, make deposits at an insured financial institution, and know their hard-earned money would be safe.

This year, as we commemorate the 70th Anniversary of the Federal Credit Union Act, there are more people than ever in need of credit union services.

Disturbing Census Data

Last month the Census Bureau released some very disturbing data. The national poverty rate has risen to 12.5%, up from 11.3% in 2000. This means that 36 million people – 1 out of every 8 people in America – are living in poverty.

It also means that an increasing number of families with two adults and two children are struggling to live on incomes below $18,660 a year. Those facing the most dire financial situations are immigrants, minorities and women. I find it shocking that a 28% of single mothers are living in poverty.

The Census report is a grim reminder of what happens to those at the lower end of the socioeconomic spectrum when there is a downturn in the economy followed by a jobless recovery. More people become impoverished. Those people already living in poverty find themselves with even fewer resources.

For the working poor, the situation is not much brighter. Even as interest rates set record lows in recent years, inflation grew faster than income. All across our nation, in cities as well as rural areas, the vast majority of workers are losing real income.

So for more and more hard-working people in America, achieving a higher quality of life remains only a dream.

Opportunities for Credit Unions

I am sharing this information with you because it presents important opportunities for credit unions.

Credit unions can play a valuable role in making that dream a reality for people in your field of membership. Doing so is as important to the people in your community as it is to the future of your credit unions. It is a great way to increase your membership, and it provides another reason for credit unions to remain tax-exempt.

You can help turn that dream into reality.

1) Alternatives to Predatory Lending

You can start by offering alternatives to predatory lending.

Offering small loans can make a huge difference to someone who needs $200 to fix their car so they can get to work, or $300 to cover a medical emergency.

All too often, these people have nowhere to turn when they are faced with these urgent needs. So they are drawn to creditors who will make small loans quickly, irrespective of the borrowers' credit rating. That often means going to pawn shops or payday lenders who, as you know, make it very easy because they are conveniently located on every corner in some neighborhoods.

These creditors are making loans – but they are also draining the local economy. Each year they charge more than $200 billion – that's billion, with a b – to consumers who can least afford it. We're talking about triple-digit interest rates and exorbitant hidden fees.

On top of that, they keep refinancing these loans into even higher-cost loans when borrowers cannot meet their outrageous terms. This keeps consumers in an endless cycle of debt.

Credit unions that make small loans are making an enormous difference to people who have urgent needs. These loans are generally at higher interest rates than credit unions' conventional loans, but they are much more affordable than predatory loans.

Most important, many of the people who receive small loans from credit unions become loyal members who will not be lured back to predatory lenders.

Because many credit unions have recognized the importance of offering small loans, the payday lending industry is now openly targeting credit unions as their "Number 1 Enemy." The largest payday lending group has hired a crisis management company because they claim credit unions are working to drive payday lenders out of business. And I hope they're right!

What a great compliment! Being accused of providing an affordable alternative to predatory loans!

I encourage all of you to compete with predatory lenders. Remember, they're going after your field of membership! Take this opportunity to get out there and protect your turf – and your members!

And while you're making small loans, you should also offer risk-based loans. This is another valuable opportunity to reach new members.

Risk-based lending protects safety and soundness by charging higher rates for higher credit risks, while extending loan opportunities to more of the people who need them most.

And, risk-based lending demonstrates the credit union philosophy as well as any policy I can think of! It ensures that just about everyone – even C and D borrowers – can be approved for a credit union loan.

If you don't make loans to C or D borrowers, you are forcing them out your doors – and into the doors of predatory lenders.

Risk-based lending will not only bring new members to your doors. It will put these members on firmer financial footing – so in the future they will begin to build wealth.

2) Affordable Mortgages

There's a common misperception about wealth. Wealth means more than income. Wealth means assets. And the cornerstone of wealth is homeownership – because for most Americans, their home is their most valuable asset.

As diverse as this nation is, most everyone aspires to own our own homes, to put down roots in our communities, and to build a better life for our families.

Especially for people with low and moderate incomes, homeownership is the best way to build long-term wealth. So for credit unions, making affordable mortgages is a golden opportunity to develop loyal credit union members, and at the same time, expand the credit union market.

The good news is that nearly 70% of credit unions offer mortgages. However, barely 2% of all mortgages are made by credit unions. This means the vast majority of your members are going elsewhere for their mortgages.

Unfortunately, more members are going to subprime lenders. Often subprime lenders prey upon consumers with less-than-perfect credit histories – and these unscrupulous lenders are very creative in inventing new ways to rip people off!

Every time I think I've heard the most outrageous example about how they are ripping people off, along comes another one.

Recently I heard a heartbreaking story about how a subprime lender ripped off a Habitat for Humanity homeowner. The home came with a 1% mortgage. But a subprime lender enticed the low-income borrower with a thousand dollars in cash up-front to refinance. After refinancing, the interest rate was 15%. And before too long the property was in foreclosure. This is happening over and over again all over this country. Each year millions of borrowers sign their homes away to unscrupulous subprime lenders.

What's frightening is that subprime lenders now control 13% of the mortgage market, and they're growing more than 40% a year. Yet credit unions' share of the mortgage market is shrinking.

But credit unions can compete! First you have to find the borrowers who are most in need of affordable mortgages -- the people who don't yet own their first homes.

You can look to minorities:

Barely half of all minority households own their homes (compared with ¾ of Caucasians).

And homeownership continues to elude many working poor families. While the overall homeownership rate in America is up to 70%, the homeownership rate for families with low-to-moderate incomes has fallen to 56% -- lower than the rate was in 1978!

Without a doubt, credit unions can make a difference. By providing mortgages with no down payments, low interest, and reduced fees, more Americans can achieve the dream of homeownership.

The easiest way to do this is by partnering. From national organizations to organizations based in your own communities, there are partners who can help credit unions offer special programs with low down payments and reduced closing costs for first-time homebuyers.

The Summit Federal Credit Union, led by NAFCU Vice Chairman Mike Vadala, provides an example of a very innovative partnership:

The Summit is partnering with Fannie Mae, the City of Rochester, and local businesses to offer "Employer-Assisted Housing" to underserved homebuyers in the inner city.

The Summit provides each inner-city homebuyer with a substantial credit that amounts to 1% of the home price, which can be used to help pay for their down payment or closing costs and also waives $400 in fees.

Then The Summit's legal and appraisal partners discount their fees up to $250. Each homebuyer's employer provides an extra financial incentive, and the City matches each employer's contribution up to $3,000.

This program gives inner-city workers strong incentives to live where they work. It cuts their commuting times so they can spend more time at home with their families and enjoying their communities. It builds loyalty to their employer and to their credit union. And it's probably the most important transaction they will ever make to build their personal wealth.

The Summit sells all of these inner-city mortgages to Fannie Mae, as part of Fannie Mae's "My Community" program. As NAFCU-member credit unions, you too have an opportunity to put this program to work in your communities.

3) Financial Literacy

But getting members into their first home is only part of the process. To keep their home, they need to have financial literacy skills. If members don't understand credit or budgeting, they may have trouble making their monthly mortgage payments.

Financial education is not just for homeowners. It can be a lifeline for all consumers who are struggling to live from paycheck to paycheck.

For the growing number of people who are over their heads in debt or making weekly trips to payday lenders, financial education can make the difference between a prosperous future and a life of poverty. Financial education can make people better savers, better-informed buyers, and, ultimately, credit-worthy, long-term credit union members.

In my travels, I am always so impressed by the number and variety of member services provided by credit unions. But I don't think any have struck me as much as the creative financial literacy efforts so many credit unions have undertaken. In fact, I believe credit unions are world-class financial educators.

Credit unions teach programs for every age and income group in languages from Spanish to Vietnamese, from Portuguese to Cambodian, and just about any language spoken in a credit union's field of membership. And there are programs in any venue you can name, from elementary schools to military bases, from homeless shelters to community fairs. No matter what the level of the course or the language in which it is taught, credit unions' financial literacy efforts are having a big impact.

I challenge you to make a commitment to helping everyone in your field of membership become financially savvy. Financial literacy programs teach basic financial skills but also can extend into more sophisticated areas such as investment classes, one-on-one financial planning advice, and credit counseling.

The issue isn't which program you select, but how soon you begin educating everyone in your field of membership about the benefits of good credit. Notice I didn't say, "educating your members"; I said, "educating everyone in your field of membership." Reaching out to your entire field of membership will increase awareness of the services you provide and result in new loans.

New Members = Safety and Soundness

This brings us back to the issue of new members – which I see as a long-term safety and soundness issue.

Today, despite America's sluggish economy over the past four years, our latest NCUA data show that federal credit unions are safe and sound:

- The average net worth ratio is holding steady at a solid 10.8%.
- The average loan-to-share ratio is slowly recovering, approaching 70% (although still down from 78% at year-end 2000).
- And the average delinquency ratio of 0.67% is amazingly low, especially considering the number of layoffs that U.S. workers have endured in recent years.

This low delinquency ratio reflects the strong relationships that credit unions have built with existing members.

However, membership growth at credit unions continues to stagnate at about 2%, despite record increases in potential membership. This is especially surprising at a time when credit union assets have been growing at near double-digit rates.

This means the vast majority of asset growth is coming from existing members. So although the credit union system is very safe and sound today, as a regulator, I am concerned that credit unions cannot safely sustain this pace far into the future. The reality is, plants are closing, firms are downsizing, existing members are aging, and credit unions need to look for new members.

To find new members, credit unions will have to reach out to those segments of the population which are growing the fastest: Latinos, Asians and African-Americans.

So the best strategy to grow membership in the future is to reach out today to people of all ethnic and economic backgrounds.

Preserving the Tax Exemption

I know your purpose in coming to town is to visit Capitol Hill. You might be wondering how my message today relates to this mission. Well you know as well as I do that there is a very aggressive campaign to end the tax exemption for credit unions.

One reason that credit unions have maintained their tax exemption in the past is their not-for-profit, cooperative structure. But this structure alone will not be enough of a reason in the future.

Several other co-ops are already taxed. And more lawmakers are now asking, "Why shouldn't credit unions be taxed?"

Now, Congressman Bill Thomas, Chairman of the powerful House Ways and Committee, has, in fact, questioned the "societal good" of credit unions.

Chairman Thomas warned that credit unions are "in direct competition with institutions that pay taxes", and he has asked "what is the good and worthy cause for which they were given the non-profit, tax-preferred status?"

He and other lawmakers need to hear about the good and worthy causes that credit unions are undertaking to help their constituents – especially constituents who are not served by other insured institutions.

So when you reach out and help more people in your field of membership, remember these new members are constituents of federal lawmakers, and this will give Congress more reasons to preserve your tax exemption.

Difference Between Credit Unions and Banks

If your lawmakers ask you, "What really is the difference between credit unions and banks?" you can share with them the difference in approach to educating college students.

Tower Federal Credit Union, a NAFCU member in Laurel, Maryland, has an assortment of different flyers geared to college students.

In simple language, each flyer educates students so they avoid becoming overburdened by credit card debt, and understand the consequences of making only the minimum payments each month:

- One flyer is entitled “The cruel trap of student credit cards”;
- another, “Now that you’re out on your own, don’t go out on a limb with credit cards”;
- and a third, “Paying more than the minimum payment could be the best career move you’ll ever make.”

Contrast this with the mailing my 18-year-old son received from a large bank, just before he left for college:

The cover letter said in large bold type across the top, “Here’s the first step you can take to start building good credit.”

I thought it might be a course or a booklet on how to manage his finances in college. Instead, it was an application to receive a credit card! It advised him, “there’s no better way to learn accountability than with the Platinum Select Visa Card.”

My son did not apply for this card. So a month later the bank sent another application that was as aggressive as the first.

Maybe this explains why students are graduating from college with an average credit card balance over $2,700 -- And if they keep making only the minimum payments it will take them more than 15 years to pay it off!

One final point: Reaching out and offering services to everyone in your field of membership is not just a good idea to protect your tax exemption. It’s good business.

Whether you’re making small loans to help people survive financial emergencies; refinancing predatory loans to break the endless cycle of debt; or helping renters realize the dream of owning their own homes, many of these members will stay loyal to your credit union for life.

And while these services will diversify your balance sheets, these new borrowers will diversify your membership base – effectively spreading your risks and making your credit unions even stronger.

Most importantly, these loyal new members will give your credit unions even greater potential to grow in the future.

In the end, you have the ultimate power to determine the strength of your credit unions – both on your balance sheets and in the halls of Congress. Just as your predecessors were 70 years ago, you are now in position to help reduce poverty and raise the standard of living for millions of new members from all walks of life.

This may sound like a high-reaching goal. It is. But I believe credit unions can play a pivotal role in improving the quality of life across America.

Judging by the innovative services I have seen at credit unions throughout our nation, the talent of federal credit union leaders in this room, and your passion to fulfill the credit union mission, I am confident that you can do it! Thank you.